

STATE OF WASHINGTON
DEPARTMENT OF FINANCIAL INSTITUTIONS
SECURITIES DIVISION

IN THE MATTER OF DETERMINING
Whether there has been a violation of the
Securities Act of Washington by:

Order No.:

STATEMENT OF CHARGES AND
NOTICE OF INTENT TO
ENTER ORDER TO CEASE AND DESIST,
TO IMPOSE FINES, AND TO CHARGE COSTS

Respondent

THE STATE OF WASHINGTON TO:

STATEMENT OF CHARGES

Please take notice that the Securities Administrator of the State of Washington has reason to believe that Respondents [REDACTED] have each violated the Securities Act of Washington. The Securities Administrator believes those violations justify the entry of an order against the Respondents to cease and desist from such violations and to charge costs pursuant to RCW 21.20.390, and, under RCW 21.20.395, to impose fines. The Securities Administrator finds as follows:

TENTATIVE FINDINGS OF FACT

Respondents

1. [REDACTED]
2. [REDACTED]

**STATEMENT OF CHARGES AND NOTICE
OF INTENT TO ENTER ORDER TO
CEASE AND DESIST, TO IMPOSE A FINE,
AND TO CHARGE COSTS**

DEPARTMENT OF FINANCIAL INSTITUTIONS
Securities Division
PO Box 9033
Olympia, WA 98507-9033
360-902-8760

1 [REDACTED]
2 [REDACTED]
3 **Nature of the Offering**
4 3. [REDACTED]
5 [REDACTED]
6 [REDACTED]
7 [REDACTED]
8 [REDACTED]
9 [REDACTED]
10 [REDACTED].

11 4. From approximately November 7, 2017 to December 7, 2017, [REDACTED] conducted a
12 “crowdsale” that was, in effect, open to the general public. During the crowdsale, [REDACTED] sold \$32 million
13 worth of [REDACTED] Tokens. During this offering, investors purchased their [REDACTED] Tokens with Ether. [REDACTED]
14 did not restrict this offering to accredited investors. Instead, [REDACTED] attempted to restrict the crowdsale to
15 residents of certain areas. Before the crowdsale, [REDACTED] intended to use the crowdsale’s proceeds to complete
16 its platform which it called [REDACTED] during the period prior to the crowdsale. Since the conclusion of
17 the crowdsale, [REDACTED] has not issued any additional [REDACTED] Tokens to the public, forcing prospective
18 purchasers to buy [REDACTED] Tokens through cryptocurrency exchanges.

19 [REDACTED] and [REDACTED] *Token Purchasers Viewed and Treated the [REDACTED] Tokens as Investments*

20 5. [REDACTED] promoted [REDACTED] Tokens as if they were investments prior to the crowdsale. For
21 example, in the months preceding the crowdsale, [REDACTED] publicized on its website at the time,
22 [REDACTED] the [REDACTED] Token’s prospects as an investment rather than its value as a utility coin to be used
23 on [REDACTED]. For example, in [REDACTED] 2017, [REDACTED] boasted about its appearances on several websites

1 that cover the cryptocurrency community, including Coin Agenda, Coin Telegraph, and Cryptotraders.¹
2 Moreover, in [REDACTED] 2017, the [REDACTED] blog, [REDACTED], featured an item about a newly-formed
3 partnership with [REDACTED] [REDACTED]
4 [REDACTED]²

5 6. Before and during the crowdsale, prospective purchasers were interested in the [REDACTED] Token's
6 value as an investment, not as a utility coin. For example, in [REDACTED] 2017, a prospective purchaser stated
7 in an email to [REDACTED] that he was not a cryptocurrency trader, but he wished to purchase and tuck away [REDACTED]
8 Tokens for his children's future. In [REDACTED] 2017, prospective purchasers sent emails to [REDACTED] asking
9 how they could track the [REDACTED] Token's value. Other prospective purchasers asked when the [REDACTED] Tokens
10 would be listed on crypto exchanges. [REDACTED] told at least one prospective purchaser that [REDACTED] Tokens would
11 be transferable after the crowdsale.

12 7. [REDACTED] continued to promote the [REDACTED] Token's value as an investment on its blog after the
13 crowdsale. In [REDACTED] 2018, [REDACTED] promoted the [REDACTED] Token's listing on [REDACTED], a South Korean
14 cryptocurrency exchange [REDACTED]. In [REDACTED] 2018, [REDACTED] included its listing on
15 cryptocurrency exchanges Binance and Upbit. In [REDACTED] 2018, [REDACTED] promoted the [REDACTED] Token's inclusion
16 on [REDACTED], a [REDACTED]d cryptocurrency exchange.

17 8. [REDACTED] also intended to rely on the [REDACTED] Token's value as an investment by dedicating a
18 comparatively small amount of its reserve of [REDACTED] Tokens to compensate the app's users for [REDACTED]
19 [REDACTED], and by paying its debts with [REDACTED] Tokens. Prior to the crowdsale, [REDACTED] had issued 7.5 billion

20
21 [REDACTED]
22 [REDACTED]
23 [REDACTED]

1 [REDACTED] Tokens. Of this amount, [REDACTED] made five billion [REDACTED] Tokens available to the public during the
2 crowdsale. [REDACTED] set aside less than fifteen percent of the 7.5 billion [REDACTED] Tokens for use as utility coins.
3 [REDACTED] also planned to pay marketing and promotion expenses with this amount. Furthermore, approximately
4 18.3% of the [REDACTED] Tokens were set aside for payment to employees, contractors, and to [REDACTED] partners,
5 among others.

6 [REDACTED] *Did Not Provide Investors with a Disclosure Document*

7 9. [REDACTED] did not provide its crowdsale investors with a disclosure document containing all of
8 the material facts of the token investment. Consequently, [REDACTED] did not disclose in writing to the crowdsale
9 investors the risks related to investing in [REDACTED] Tokens.³ Such risks include, but are not limited to, the risk
10 that [REDACTED] Tokens may not increase in value, the risk that cryptocurrency exchanges may not list [REDACTED]
11 Tokens and thus affect the liquidity of the tokens, the risk that exchanges that currently list [REDACTED] Tokens
12 may de-list them, and the risk that [REDACTED] Tokens may become significantly regulated.

13 **Registration Status**

14 10. [REDACTED] is not registered to sell its securities in the State of Washington, and has not
15 previously been so registered.

16 11. [REDACTED] is not registered to sell its
17 securities in the State of Washington, and has not previously been so registered.

18 **CONCLUSIONS OF LAW**

19 Based on the above Tentative Findings of Fact, the following Conclusions of Law are made:

1 1. The offer and/or sale of [REDACTED] Tokens described above constitutes the offer and/or sale of a
2 security as defined in RCW 21.20.005(14) and (17).

3 2. [REDACTED] has violated RCW 21.20.140, because, as set forth in the Tentative Findings of
4 Fact, [REDACTED] offered and/or sold securities for which no registration is on file with the Securities
5 Administrator.

6 3. [REDACTED] has violated RCW 21.20.140,
7 because, as set forth in the Tentative Findings of Fact, [REDACTED]
8 [REDACTED] offered and/or sold securities for which no registration is on file with the Securities Administrator.

9 4. [REDACTED] has violated RCW 21.20.010, because, as set forth in the Tentative Findings of
10 Fact, [REDACTED], made untrue statements of material fact or omitted to state material facts necessary to
11 make the statements made, in light of the circumstances in which they were made, not misleading.

12 5. [REDACTED] has violated RCW 21.20.010
13 because, as set forth in the Tentative Findings of Fact, [REDACTED]
14 [REDACTED] made untrue statements of material fact or omitted to state material facts necessary to make the
15 statements made, in light of the circumstances in which they were made, not misleading.

16 **NOTICE OF INTENT TO ORDER THE RESPONDENTS TO CEASE AND DESIST**

17 Based upon the above Tentative Findings of Fact and Conclusions of Law, the Securities
18 Administrator intends to order, pursuant to RCW 21.20.390(1), that [REDACTED] and its agents and employees
19 shall each cease and desist from violating RCW 21.20.140 and RCW 21.20.010.

20 Based upon the above Tentative Findings of Fact and Conclusions of Law, the Securities
21 Administrator intends to order, pursuant to RCW 21.20.390(1), that [REDACTED]
22 [REDACTED] and its agents and employees shall each cease and desist from violating RCW
23 21.20.010 and RCW 21.20.390.

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3 **NOTICE OF INTENT TO IMPOSE FINES**

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6 Pursuant to RCW 21.20.395, and based upon the Tentative Findings of Fact and Conclusions of Law,
7 the Securities Administrator intends to order that [REDACTED] shall be liable for and shall pay a fine of
8 \$50,000. Pursuant to RCW 21.20.395, and based upon the Tentative Findings of Fact and Conclusions of
9 Law, the Securities Administrator intends to order that [REDACTED]
10 [REDACTED] shall be liable for and shall pay a fine of \$50,000.

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12 **NOTICE OF INTENT TO CHARGE COSTS**

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15 Pursuant to RCW 21.20.390, and based upon the Tentative Findings of Fact and Conclusions of Law,
16 the Securities Administrator intends to order that [REDACTED] and [REDACTED]
17 [REDACTED] shall be jointly and severally liable for and shall pay the costs, fees, and other
18 expenses incurred in the administrative investigation and hearing of this matter, in an amount not less than
19 \$10,000.

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21 **AUTHORITY AND PROCEDURE**

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24 This Statement of Charges is entered pursuant to the provisions of Chapter 21.20 RCW and is subject
25 to the provisions of Chapter 34.05 RCW. The Respondents, [REDACTED] and [REDACTED].
26 [REDACTED], Inc. may make a written request for a hearing as set forth in the NOTICE OF
27 OPPORTUNITY TO DEFEND AND OPPORTUNITY FOR HEARING accompanying this Order. If the
28 Respondent does not make a hearing request in the time allowed, the Securities Administrator intends to adopt
29 the above Tentative Findings of Fact and Conclusions of Law as final and to enter a permanent order to cease
30 and desist as to the Respondent, to impose any fines sought against the Respondent, and to charge any costs
31 sought against the Respondent.

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[REDACTED]



William M. Beatty
Securities Administrator

Approved by:



Brian J. Guerard
Chief of Enforcement

Presented by:



Edward R. Thunen
Financial Legal Examiner

Reviewed by:



Huong Lam
Financial Legal Examiner Supervisor

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